



DIVISION OF  
INVESTMENT MANAGEMENT

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

June 12, 2001

The Honorable John D. Dingell  
Ranking Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
2322 Rayburn House Office Building  
Washington, D.C. 20515-6115

Re: Recommendation of the U.S. General Accounting Office on Mutual Fund  
Fee Disclosure

Dear Congressman Dingell:

Acting Chairman Unger has asked me to reply to your May 24, 2001 letter regarding the General Accounting Office's ("GAO") letter report, SEC's Report Provides Useful Information on Mutual Fund Fees and Recommends Improved Fee Disclosure (May 3, 2001) ("May 2001 GAO Letter"). This letter also provides the progress report requested in your June 30, 2000 letter regarding the GAO's earlier report, Mutual Fund Fees: Additional Disclosure Could Encourage Price Competition (June 7, 2000) ("June 2000 GAO Report"), in which the GAO recommended that the Commission require mutual funds' quarterly account statements to include the dollar amount of each investor's share of fund operating expenses.

As you know, on December 21, 2000, the Commission authorized the issuance of a report on mutual fund fees and expenses prepared by the Division of Investment Management ("Division"). The report made clear that the Division agrees with the GAO that the fund industry and the Commission should encourage mutual fund shareholders to pay greater attention to fees and expenses. In addition to information about the dollar amount of fees, investors need information that helps them to understand the fees that they pay and to compare them to the fees associated with other investments.

The Division continues to believe, however, as we reiterated in our April 27, 2001 letter commenting on a draft of the May 2001 GAO Letter, that any additional fee information, including the dollar amount of fees, should be provided in semi-annual and annual reports to shareholders, rather than in quarterly account statements. Including fee information in the shareholder reports would enable investors not only to compare fees across funds, but also to evaluate fee information in relation to other key information about a fund's operating results.

Moreover, the compliance costs to funds in making the personalized expense disclosure suggested by the GAO – costs which, undoubtedly, would be passed on to the funds' investors – may be considerable. Indeed, based on the estimate in the June 2000 GAO Report of "a few dollars or less per investor," with some 240 million mutual fund accounts, personalized expense disclosure could entail an additional expense of \$480 million (based on \$2 per account) or more for mutual fund investors and the industry. We therefore believe that including any additional fee information in the shareholder reports, rather than the quarterly statements, is likely to achieve the most favorable balance between costs and benefits.

The Division expects to present its recommendations on mutual fund fee disclosure to the Commission for consideration in the context of improving fund shareholder communications after confirmation of a new Chairman. If you or your staff have any questions in the interim, please feel free to contact me at (202) 942-0720. We appreciate your interest in the important issue of mutual fund fees.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul F. Roye".

Paul F. Roye  
Director

cc: The Honorable W.J. Tauzin, Chairman  
Committee on Energy and Commerce

Similar letter sent to The Honorable Michael G. Oxley, Chairman, Committee on  
Financial Services